



واحة الفرص الإستثمارية  
An Oasis of Investment Opportunities

# Capital Markets

Modernisation streamlining market access and activity

Regulators working to review changes to listing rules

Short-selling and exchange-traded funds on the way

Government bonds see a surge across the Gulf region





The bourse is being granted some responsibility for its own oversight

# Building interest

## Regulatory efforts are modernising accessibility, enhancing trade structure and expanding opportunities

Despite macroeconomic challenges facing Bahrain, the kingdom's stock market has performed reasonably well over the past two years. Although listings activity has been weak recently, developments such as the introduction of a real estate investment trust (REIT) in 2017 and the initial public offering (IPO) of a local logistics operator in 2018 bode well for the market. A range of reforms being undertaken by the bourse, including new listing rules and plans for new products, are set to further support market liquidity and increase the exchange's attractiveness.

**STRUCTURE & OVERSIGHT:** The Bahrain Bourse (BHB), the national stock exchange, is made up of a conventional equity market; a bond market for both conventional bonds and *sukuk* (Islamic bonds); a Treasury bill market; an exchange for REITs; a mutual fund market; and an alternative equity board for growth-stage companies, known as the Bahrain Investment Market (BIM). The bourse is also working to develop several new asset classes, including exchange-traded funds (ETFs) and derivatives.

Both primary and secondary market activity is regulated by the Capital Markets Supervision Directorate of the Central Bank of Bahrain (CBB). However, as of September 2018 the CBB was in the process of reviewing new listing rules for the stock exchange, which will designate it as a self-regulating organisation with some responsibility for oversight of its own activities and processes. "The new model closely follows that of Singapore, where listing powers are largely entrusted to the exchange," Narjes Farookh Jamal, chief officer of operations at the BHB, told OBG. The rules are yet to be approved, and no update had been made public as of January 2019.

This structural change comes on the back of the July 2017 launch of the Bahrain Clear Company, a fully owned subsidiary of the BHB that is responsible for activities such as the clearing and settlement of market transactions, as well as custodian, depository

and registration activities. The launch of the new firm, which held disclosed capital of BD5m (\$13.2m) and paid-up capital of BD1m (\$2.6m) at the time, is expected to build investor confidence and help lift the kingdom's rating on international indices.

The creation of Bahrain Clear, which had been in the works for some time, was facilitated by the conversion of shares in all listed firms from paper certificates to electronic records in 2016. Abdulla Jaffar Abdin, senior director of operations at Bahrain Clear, told OBG that the body is working on the implementation of a five-year development strategy, ending in 2022, which is based around 16 separate initiatives. One of the key focuses of the strategy is the development of post-trade processing and value-added services for investors, including the payment of dividends through a dedicated bank card, which has now been launched. The body is also working on an initiative to shift its settlement bank from a local commercial bank to the central bank.

"Having the CBB as our settlement bank will minimise risks and thereby boost international confidence in the exchange," Abdin said, adding that brokers will still be able to do business with a variety of commercial sub-settlement banks.

**SIZE & PERFORMANCE:** Market capitalisation stood at approximately BD8.2bn (\$21.7bn) at the close of 2018, according to figures from the BHB. This was only a slight change from the end of the previous year, but up from BD7.3bn (\$19.3bn) at the end of 2016 and close to its pre-oil crash peak of BD8.33bn (\$22.1bn) seen at the end of 2014.

Equity market performance was more or less flat for the year, with the Bahrain All Share Index (BASI) posting year-on-year growth of 0.5% in December 2018 to settle at 1337.26. This followed a strong 2017, when the BASI rose by 9.1% – driven by an 11.7% increase in the value of banking shares, which dominate the market, as well as an 88.2% increase in the

Bahrain Clear, the exchange's subsidiary in charge of the clearing and settlement of transactions, is working on a five-year development strategy based around 16 initiatives.

Market capitalisation stood at

**\$21.7bn**

in December 2018



Several firms on the kingdom's exchange are cross-listed on the bourses of other countries in the region

The five biggest firms, which are four banks and one aluminium producer, account for more than half of the exchange's total market capitalisation.

value of industrial shares. As a result, the index has regained most of the losses it posted in the wake of the 2014-15 oil price crash, having peaked on an end-of-quarter basis at 1476 in September 2014, before falling to a low of 1118.4 in mid-2016.

**EQUITY MARKET:** There were 44 companies listed on the equity market as of the end of 2018, operating across a number of defined sectors such as commercial banking, investment, services, insurance, industry, and hotels and tourism. These include two closed companies and one non-Bahraini firm, Oman's Bank Muscat. The market has been gradually losing members over the past decade, from a peak of 52 listed companies in 2008.

With one exception, Bahrain Family Leisure – in which ownership by non-GCC nationals or companies is capped at 49% – all equities on the market have no limits to foreign ownership. This marks a notable difference between Bahrain and some other GCC markets, in which foreign ownership in many onshore sectors is capped at less than half.

In regards to capitalisation, the equity market is top-heavy, with the five-biggest companies accounting for more than half of its total float. In keeping with the country's status as a regional centre for finance, the market is dominated by the financial sector, with banks making up four of the top-five firms by capitalisation. The largest listed company by far is Ahli United Bank, the kingdom's biggest bank by assets, with BD2.06bn (\$5.5bn) in market capitalisation as of December 2018, equivalent to 25.11% of the total market float. Ahli United Bank was followed by National Bank of Bahrain (10.44%) and metal producer Aluminium Bahrain (10.39%), with capitalisations totalling some BD855.8m (\$2.27bn) and BD852m (\$2.26bn), respectively.

A primary obstacle facing the local equity market is competition for listings from other exchanges in the GCC. "A challenge for Bahrain is that the nearby

Saudi and UAE markets are much larger, and there is a comparative lack of buyers and sellers here, leading to low levels of liquidity by comparison," Mohammed Chowdhury, head of Financial Management Group and a member of the executive committee at Arcapita, a Bahrain-headquartered investment and real estate company, told OBG.

As a result, a number of firms whose shares trade on the BHB have also cross listed on other regional markets in order to take advantage of greater trading activity and liquidity: three listed firms are also traded on Bursa Kuwait, three others on Dubai Financial Market (DFM), two more – GFH Financial Group and Ithmaar Bank – are listed on both of these exchanges, while Nasdaq Dubai and the Muscat Securities Market each host a separate company.

In December 2017 Sheikh Khalifa bin Ebrahim Al Khalifa, CEO of the BHB, told regional media that he hoped the trend of regional cross-listings would come to an end, arguing that financial technology solutions and innovations such as blockchain could allow investors to trade across regional markets without the need for them. However issuers continue to look at multiple regional listings.

"The market here is efficient, but many companies seek cross-listings because of issues of scale and liquidity," Abhijit Singh, assistant general manager for investments and special projects at insurance firm Manama-based Solidarity Bahrain, told OBG. He added that the low level of retail market activity exacerbated liquidity issues, stating that Solidarity itself was thinking of cross-listing on another regional market – most likely DFM or Saudi Arabia's Tadawul – within the next three to five years to improve its liquidity and expand its investor base.

**IPO & PLANNED LISTINGS:** Listing activity has been weak in recent years, and the number of listed firms on the bourse has fallen over the past decade. However, the December 2018 entrance of local port operator APM Terminals may be a sign of a coming change in trends. In November of that year the firm held a major IPO, putting up some 18m shares at BD0.66 (\$1.75) per share, which represented 20% of the company's total issued share capital. The first trading session ended with shares at BD0.77 (\$2.04), marking an increase of approximately 15.9% on the offer price. As well as being the first IPO of a transport and logistics firm on the BHB, it was the first to use the Bahrain Clear eIPO platform, which offers a modernised online subscription portal.

In the wake of the APM Terminals IPO, several firms are undergoing due diligence for potential listings on the BIM. Regulatory reforms being introduced by the bourse to streamline the listings process and bolster trading activity, which would make IPOs more attractive for issuers, should also help to bolster the offerings pipeline (see analysis).

**TRADING ACTIVITY:** The value of trading on the exchange stood at around BD323m (\$855.9m) for the whole of 2018, according to figures from the BHB, up 53%. As with both market capitalisation

In 2018 the value of shares traded on the Bahrain Bourse grew by

53%

and the performance of the BASI, trading activity rose strongly in 2013 and 2014, when it peaked at approximately BD269.3m (\$713.6m), before falling back sharply in the wake of the oil price slump to BD110m (\$291.5m) in 2015 and then recovering to close to its 2014 heights. Local investors dominate trading, with 68% of activity by value conducted by Bahraini nationals in 2018.

The recovery in activity has been supported by efforts by market authorities to boost liquidity in recent years, which includes the launch in 2016 of a \$100m liquidity fund – managed by Manama-based investment firm SICO – to act as a market maker, followed by the approval of market-making guidelines in 2017. There are now two market-making companies operating in the kingdom: SICO and Mubasher Financial Services, which is based in the UAE and operates across the Middle East.

The BHB's Jamal told OBG that a third application was currently under review, adding that the bourse has ambitions to increase the minimum free float, currently set at 10% of equity. The move would deepen the market and also improve liquidity. "We aim to raise the figure within the next few years in order to achieve emerging market status," she told OBG, noting that the current level was the only bottleneck preventing the market from receiving a status upgrade by international index makers, who currently allocate it frontier market status. A status upgrade would allow emerging markets-focused funds – which tend to be larger than frontier market-focused funds – to invest in local securities. This would give a substantial boost to liquidity and trading activity.

**ACCESSIBILITY UPGRADES:** Plans are also in the pipeline to facilitate access to the market by investors from other countries in the region. In late 2017 the BHB's Al Khalifa told regional media that the exchange was in early-stage talks with other bourses in the Middle East in regards to a pilot project based around the distributed-ledger platform blockchain that could facilitate cross-border trading.

In addition, market authorities are taking initiatives to encourage greater retail investment activity. In October 2017 the bourse launched a new platform, Bahrain Trade, that allows retail investors to trade through their online bank accounts. The platform is powered by brokerage services provider Mubasher Financial Services and SICO Live, and claims to be compliant with both sharia and conventional standards. Khaleeji Commercial Bank was the first banking institution to sign up to the service, and was followed by National Bank of Bahrain. The bourse itself, as well as the broker and the bank in question, will share the revenue from commissions on such trades. "Setting up Bahrain Trade involves minimal investment on the part of banks and offers them a new revenue stream as none of the banks involved previously had brokerage licences," Jamal told OBG.

In June 2018 Bahrain Clear announced plans to issue investors pre-paid cards, to which dividend payments will be transferred, allowing them to withdraw



March 2017 marked the launch of an alternative market aimed at providing financing to growth-stage firms

such payments directly from bank machines. As of September 2018, 11,390 of the company's MyShare cards had been issued, and there were approximately 148,000 investors in the market. The initiative currently covers dividends from three listed companies, which include the two listed companies with the largest shareholder base, with plans to add a fourth sometime in the future and expand to all issuers by 2020. "We initially wanted to distribute all dividends via IBAN payments but did not have the necessary data for everyone, so we launched the MyShare card as an innovative intermediary approach, with the option for IBAN payments for those investors who want it," Abdin told OBG. "The card will, in particular, help investors outside of Bahrain who don't have an IBAN, as they previously had to appoint a local custodian to collect the dividend and wire it to them, which was costly," he added, noting that around half of investors in the market are not based in the kingdom.

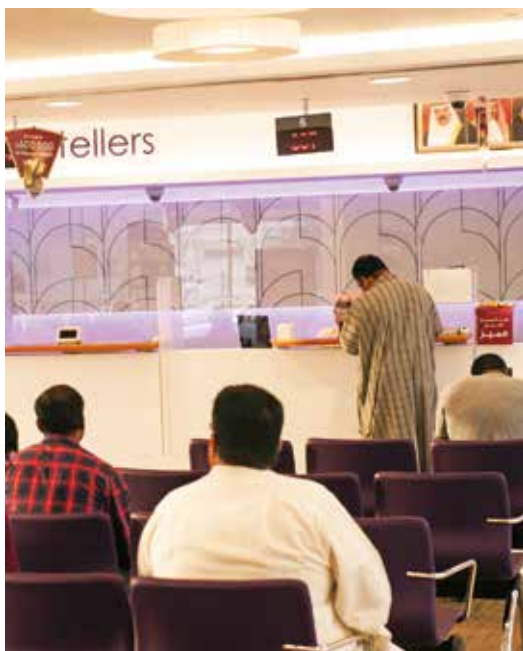
**GROW SPACE:** March 2017 saw the inauguration of the BIM, an alternative market aimed at providing financing to small and medium-sized enterprises (SMEs). Companies registering on the board will have their listing costs partially covered by government body Tamkeen, which provides training and mentoring services to Bahraini entrepreneurs.

In order to list, SMEs are required to obtain support from an authorised sponsor firm: professional services and advisory companies KMPG and Key-point were designated as such when the market first launched, and since then BDO Consulting, investment bank SICO, Almoayed Chambers Consultancy and Grant Thornton have joined their ranks.

As of January 2019 no firms had listed on the board. Several had begun the listings process but failed to meet due diligence requirements. However, according to Jamal, three companies – a logistics operator, a car dealership, and a food and beverage firm – were currently undergoing due diligence ahead of listing,

Nationals conducted  
**68%**  
of trading activity  
in 2018

In an effort to encourage greater trading activity, the authorities launched a platform in October 2017 that allows retail investors to trade through their online bank accounts.



New cards allow investors to withdraw dividends from banks and ATMs

In the fourth quarter of 2018 the central bank was reviewing legal changes that will allow for securities borrowing and lending, and exchange-traded funds.

and it was likely that one of these would be placed on the board in the near future.

**NEW INSTRUMENTS:** Following changes to CBB regulations and the implementation of a new Trust Law, November 2016 saw the launch of the kingdom's first REIT, a form of company that allows individuals to buy and trade shares in real estate portfolios. The security, which had a subscription rate over 95% and was listed on the stock exchange the following January, was issued by state-owned Eskan Bank, an investment bank arranging public-private partnerships with private sector landlords and investors, and which is also a real estate developer.

The REIT, which is sharia compliant, currently contains two real estate assets: Segaya Plaza, a residential and retail property; and the commercial elements of Danaat Al Madina, a mixed-use development. Ahmad Tayara, chief business officer and deputy general manager at Eskan Bank, told OBG that the bank was working on sourcing third-party assets or developing

its own assets to include in the REIT to improve net yield and reduce risk through diversification.

REITs have been gaining ground across the Gulf in recent years. According to regional media, total market capitalisation of the GCC's REITs was around \$1.4bn in October 2017. Bahrain is the second country in the GCC to witness REIT listings, after the UAE. In November 2017 the CBB relaxed restrictions on trading the instruments, allowing retail investors access to the segment. Jamal told OBG that a second REIT introduction was under review and that the bourse was working to encourage more. "We are in discussions with the government regarding several potential waivers and incentives in relation to REIT listings and the conversion of real estate funds to REIT structures," she said.

However, one obstacle to the development of REITs in the kingdom is the deployment of other investment vehicles. "When launching Eskan Bank Realty Income Trust, the government was also raising funds from the market and paying generous coupons, deterring other REITs from listing as their yields and risk profiles could not compete with sovereign instruments," Tayara told OBG. As of January 2019 the Eskan security was still the only REIT listed on the BHB.

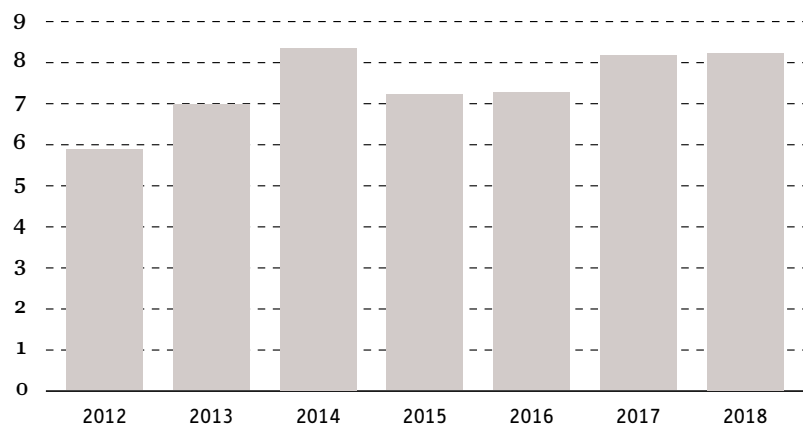
The bourse is planning to introduce more products and forms of trading in the near future. This includes permission for securities borrowing and lending, which effectively allow for short-selling. According to Jamal, the CBB had put out a draft law on the topic of short-selling for consultation, and the bourse was hoping everything would be in place for this to move forward by the third quarter of 2019. "Allowing securities lending and short-selling could have a major positive impact on liquidity," she said.

The new listing rules currently with the CBB for approval will also allow for the listing of ETFs, investment vehicles that combine key features of traditional mutual funds and individual stocks that can be traded on the same day. According to Jamal, the bourse also plans to review its regulations in order to allow for trading in futures and other derivatives in 2019, which will allow investors to bet on underlying security performance without actually buying it.

**DEBT MARKET:** On the debt side of the market, the bourse lists government and corporate bonds, sukuk and Treasury bills. Accounting for 13 of the 15 instruments listed in September 2018, government bonds dominate the market. In recent years the kingdom has been working to encourage activity on the market, in particular by retail investors.

**OUTLOOK:** The late-2018 IPO of APM Terminals offers hope for a turnaround in the trend of weak listing activity and contributes to rising capitalisation levels, as do efforts under way to vet several companies hoping to list on the BIM and the prospect of a second REIT introduction. Plans by the exchange to implement new listing rules, bring in new products and expand the number of market makers should further bolster both listing and trading activity, supporting the development of the bourse in the coming years.

#### Bahrain Bourse market capitalisation, 2012-18 (BD bn)



Source: BHB



Sheikh Khalifa bin Ebrahim Al Khalifa, CEO, Bahrain Bourse

## Early days

### Sheikh Khalifa bin Ebrahim Al Khalifa, CEO, Bahrain Bourse (BHB), on new services being launched to boost participation

#### Which efforts has BHB undertaken in order to widen retail investor participation?

**SHEIKH KHALIFA:** In terms of widening investor participation, we have recently announced the roll-out of a new service called Bahrain Trade, which enables individuals holding retail accounts with select financial institutions to trade directly on BHB via an online broker platform. We have partnered with two licensed brokers to offer this service, Mubasher and SICO, and currently have three participating financial institutions: Bank of Bahrain and Kuwait, National Bank of Bahrain, and Khaleeji Commercial Bank.

#### What are your expectations for the Bahrain Investment Market (BIM)?

**SHEIKH KHALIFA:** In terms of companies we're interested in listing, SMEs coming to BIM should be focused purely on growth. We are not trying to bring in business just to increase the liquidity of the overall market, or to increase foreign interest in the local market, or for any other reason. BIM is meant to be a place where firms can be compared against their sector index and learn how to operate formally in the same way larger companies do, until they grow big enough to list on the main market. Hence the minimal – BD1000 (\$2650) – cost of listing. Depending on the float, this could be a lower cost than a bank loan. This means that SMEs can diversify their funding sources beyond simply going to banks for loans.

There are many firms in the pipeline, and two are ready to launch. Only allowing qualified investors to take part limits the pool of investors and the amount of trading that can be done. Instead of only accepting investors with an appetite for high risk, we plan to limit the liability investors are exposed to through our sponsor system, in which sponsors are responsible for first vetting the companies and then ensuring they operate in a professional manner. We also have several additional risk-reducing requirements for

businesses. For example, the management team must have relevant expertise in the field.

#### What are some of the value-added services offered to investors in the exchange?

**SHEIKH KHALIFA:** We are introducing a number of services, including blockchain e-voting for shareholders, which will eliminate the need for shareholders to send a proxy to annual general meetings in order to vote. Currently, even foreign investors have to come to Bahrain or send a proxy to vote, but we have developed a system with a technology partner which enables remote voting. Bahrain Clear, a fully-owned subsidiary of BHB, has also started offering automated cash dividend payments through myShare cards, a partnership with Al Salam Bank Bahrain. The card will enable Bahrain Clear to credit cash dividends instantly into the shareholder's card balance, which goes in line with efforts made to enhance post-trade services. In addition, we are expecting to launch a short selling feature in 2019.

#### Where are some of the best opportunities for investors in Bahrain's capital markets?

**SHEIKH KHALIFA:** One thing that sets Bahrain apart is the real estate investment trust (REIT) framework. The Trusts Law backs REITs in Bahrain, in contrast to other jurisdictions that do not have such sound regulatory backing. Bahrain is the only market in the region with the complete legal framework to support a REIT structure. REITs are now open to all investors in Bahrain. Many companies listed on BHB are linked to government projects and have consequently been adversely affected by the government's fiscal situation. However, government debt has also opened up certain opportunities for investors. Future government funding needs may call for the issuance of *sukuk* (Islamic bonds) or exchange-traded funds that could invite active retail participation at competitive rates.